

GENERAL GUIDELINES FOR THE MANUFACTURING/R&D PERSONAL PROPERTY TAX EXEMPTION IN MARYLAND

Manufacturing/R&D Exemption

State law authorizes counties and municipalities to exempt from local taxation personal property used in manufacturing. State law includes personal property used in Research & Development (R&D) under the definition of manufacturing for 1999 and future personal property returns. While the tests and definitions of these two different types of property vary considerably, R&D property will nevertheless receive the same exemption treatment accorded to traditional manufacturers. The previous partial R&D exemption in effect for the 1996, 1997 and 1998 returns has been repealed. The intent of the exemption is to encourage the growth and development of traditional manufacturing, as well as the high-tech R&D industries.

How Does the Exemption Work?

There are three general activities that encompass the “manufacturing process”, each of which qualifies for the exemption: (1) research; (2) development; and (3) manufacturing. A business need only qualify under one category in order to receive the exemption.

The guidelines offered here are intended to inform you about the general standards, but a final determination depends on the facts and circumstances present with each business. An application form must be filed by September 1

to request the exemption, and the Department of Assessments and Taxation will provide a prompt review of all requests. The business seeking the exemption must be the one using the property: (1) in a manufacturing process; or (2) in a substantial step in a manufacturing process. Leased property may also qualify for the exemption.

Once a manufacturing exemption is granted, personal property used in the manufacturing process will be exempt from county and municipal property taxation in the amount authorized by the local governments. Most Maryland localities exempt some or all manufacturing personal property from taxation.

What is Research & Development (R&D)?

Property that is used in research and development is now eligible for the manufacturing exemption. “Research and Development” means basic and applied research in the sciences and engineering, and the design, development, and governmentally required pre-market testing of prototypes, products, and processes. R&D activities are exempt whether or not the company has a product for sale.

The following activities do not constitute research and development: market research; research in social sciences, psychology, or other nontechnical activities; routine product testing; service activities; sales; or research and development of a public utility.

Biotechnology and Software Development

State law specifically includes the following activities as part of the manufacturing process: (1) the identification, design or genetic engineering of biological materials for research or manufacture; and (2) the design, development or creation of computer software for sale, lease, or license.

What is Manufacturing?

There is a primary test for the exemption and secondary factors to be considered when application of the first test alone cannot be used to state with precision whether an activity is manufacturing.

The law defines this primary test as the process of substantially transforming, or a substantial step in the process of substantially transforming tangible personal property into a new and different article by use of labor or machinery. The term manufacturing does not include activities that are mainly intellectual, artistic or clerical in nature, services, public utility services, or property used primarily in administration, management, sales, storage, shipping, receiving or any other non-manufacturing activity.

Sometimes the Department applies the “substantial transformation” test and cannot conclusively determine whether the activities of a business qualify as manufacturing. In such cases the Department looks at secondary factors such as the scale and

character of the operation including the number of employees, the intent of the law, and whether an average person would consider the activities of the business as manufacturing. If a doubt exists after applying these secondary factors, then the exemption is denied.

How Does a Business Apply for Exemption?

The business should complete the manufacturing/R&D equipment section of the personal property return and file the manufacturing/R&D exemption application. This application must be filed by September 1 in order for the exemption to apply to the assessment for the current tax year. Normally, it is only necessary to file the application the first year that the business requests the exemption.

Illustrative Examples

It is useful to consider the following illustrative examples where the exemption has been granted or denied.

<u>EXEMPT</u>	<u>NON-EXEMPT</u>
Printing equipment	Photocopying at copy centers
Food processing plants (e.g., poultry, canning, meat packing, bakeries)	Food preparation establishments (e.g., restaurants and delicatessens)
Mining/quarries (e.g., coal, other minerals)	Generation of electricity Incinerators
Film processing/video tape production & editing	Duplication of originals
Furniture plants	Construction (e.g., road building, home building, carpentry and craftsmen)
Gene mapping	Accounting Services

Exemption Chart for 2001 Returns

(expressed as the % exempt from assessment)

This chart shows the exemption treatment for manufacturing/R&D equipment and inventory in each county.

<u>JURISDICTION</u>	<u>MFG/R&D INVENTORY</u>	<u>MFG/R&D EQUIPMENT</u>
Allegany	100%	75%*
Anne Arundel	100%	100%
Baltimore City	100%	100%
Baltimore	100%	100%
Calvert	100%	100%
Caroline	100%	100%
Carroll	100%	100%
Cecil	100%	100%
Charles	100%	100%
Dorchester	100%	100%
Frederick	100%	100%
Garrett	100%	25%*
Harford	100%	100%
Howard	100%	100%
Kent	100%	100%
Montgomery	100%	100%
Prince George's	100%	100%
Queen Anne's	100%	100%
St. Mary's	100%	100%
Somerset	100%	*
Talbot	100%	100%
Washington	100%	100%
Wicomico	100%	*
Worcester	100%	*

*These counties may grant tax credits to specific businesses.

Questions?

If you have any questions on the manufacturing/R&D exemption, please call the Personal Property Division at (410) 767-1170 or toll free at 1-888-246-5941.

A pamphlet published by
DEPARTMENT OF ASSESSMENTS
AND TAXATION
301 W. Preston Street
Room 801
Baltimore, MD 21201
website: www.dat.state.md.us

DATE PUBLISHED NOVEMBER, 2001

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**For
Business
Personal Property
In Maryland**